KATMANDU COFFEE

A Journey from Seed to Success

The beginning of Katmandu Coffee

In 2008, two Kathmandu University MBA graduates, Kumud Singh and Rabindra Shrestha, began an ambitious journey to establish a thriving coffee industry in Nepal. Despite having no prior experience in coffee or agriculture, they successfully founded Katmandu Coffee (registered as Alpine Coffee Estate Pvt. Ltd.) in October 2008. Although at the time there was minimal domestic demand, they recognised the untapped potential in the market and developed a business plan focused on the production and export of high-quality processed green coffee beans, driven by their vision to become Nepal's leading coffee producer.

Planting the Seeds of Growth

With detailed research on climate suitability and optimal land conditions, the founders acquired 15 acres of land in the foothills of Nuwakot and planted their first Arabica saplings in 2009. These took three years to mature. This period was financially challenging, as the company had no income and a negative balance sheet. So, to generate additional revenue, they launched a separate trading business focused on coffee equipment such as commercial espresso machines and hulling & milling equipment, under a different entity. This decision was influenced by FITTA regulations, which prohibit foreign-invested companies from engaging in trading activities. This dual structure allowed Katmandu Coffee to oversee the entire farm-to-cup process despite regulatory constraints that would have prevented them from streamlining operations under one company. In 2012, after four years of operations, Katmandu Coffee was ready to launch its first harvest. While their initial business plan aimed to export green beans, growing domestic demand for coffee led them to shift their target to the local market, particularly Kathmandu. This shift was influenced by several factors: despite exaggerated reports of high demand, the export market for Nepali coffee had proved to be less appealing and plausible, and they experienced a few negative export experiences that remain as bad debts on the books of Katmandu Coffee. But café culture in Nepal was on the rise and local demand for coffee was expanding.

Snapshot of Katmandu Coffee

Industry: Agri-processing

Founders:
Kumud Singh and Rabindra Shrestha

Country/Region: Nepal

List of Investors:

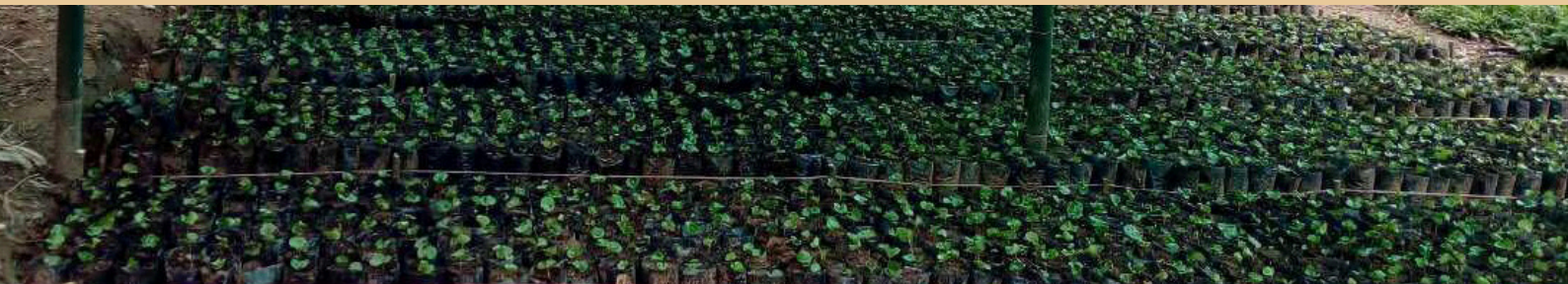
1. Founders (2008)
2. Angel Investor (2012)
3. C4D Partners (2014)
4. True North Associates (2021)
5. Alpha Plus Ventures Ltd (2024)

Exit Status

ICCO Investments (now C4D Partners):
Fully exited in 2019 at 6-7% IRR. Trade Sales to True North Associates

True North Associates:
Fully e xited in 2024 at 2x return. Trade Sales to Alpha Plus Ventures Limited

Annual Turnover (2024): NPR 24 Crore ($1.71 Million)



Overcoming financial hurdles: The investment journey

From the outset, the founders faced significant challenges in securing bank loans for their venture, as banks were sceptical of their business model. After twice being rejected for high-interest personal loans, the founders had finally secured a loan from a commercial bank for their purchase of land in Nuwakot.

Between 2010 and 2011, as the coffee saplings were maturing, the founders undertook a relentless search for investment to sustain their business. Financial challenges and scepticism from banks and cooperatives made securing additional funds an arduous task. Despite exploring various avenues, the venture faced persistent obstacles, which were further compounded by its negative balance sheet.

A breakthrough came in 2012, when support from family and friends as angel investors provided much-needed capital that allowed the company to sustain operations for another two and a half years, while also managing the burden of interest payments. It was also in 2012 that the company began selling its products.

In 2014, two years after its first angel investment, Katmandu Coffee secured its first major foreign direct investment (FDI) funding, from ICCO Investments (now Capital 4 Development Partners – C4D Partners). The process took two years to complete, as both investors and investees were new to the funding process, which required lengthy government procedures to be navigated. With investment from C4D Partners, Katmandu Coffee met several investor requirements and followed the guidance provided by them. The capital injection from C4D Partners enabled them to upgrade processing, roasting and other equipment essential for growth. With the availability of funds, the ongoing coffee harvests and growing domestic demand, Katmandu Coffee began to make significant progress.

Despite the company's efforts to explore coffee exports to international markets, strong local demand and rapid growth became the priority focus. Katmandu Coffee experienced steady growth until 2019, achieving a satisfactory annual turnover from both its coffee production and trading businesses. Then just as the company was planning to buy back shares to facilitate the exit of C4D Partners, the economic downturn caused by the COVID-19 pandemic hit the company's operations and disrupted the planned buyback.

> *"In 2014, when we were in greatest need of investment and our equities were at a loss, if there hadn't been any FDI investors willing to inject funds at a premium value rather than at face value and to take on that risk, we wouldn't have been able to move forward this smoothly."* **Kumud Singh -** Founder of Katmandu Coffee



Meanwhile, in 2017 Katmandu Coffee's founders had been in contact with local private equity fund True North Associates (TNA) to explore investment possibilities but had not been able to conclude a deal for various reasons. With their mandate to buy back shares before COVID had struck, the health of the business and TNA's continued interest, the founders approached them again. This time the deal went through, with the aim of changing strategic course and exercising strong financial discipline. TNA purchased the company's shares from C4D Partners, resolving the exit issue, while C4D Partners realised a 6-7% Internal Rate of Return (IRR) from their investment, with the formal exit taking two years to complete.

The Shift to Retail: A New Chapter

With TNA as the new investor, the company received not only capital but also support in addressing governance issues, beyond finance and accounts. From 2021 to 2024, TNA provided strategic interventions, taking an active role in establishing robust financial practices, standardising reporting, onboarding employees and ensuring regulatory compliance. These initiatives improved operational efficiency, identified and resolved working capital issues and pushed performance, resulting in a doubling in both turnover and profitability, and resulting in a dividend distribution by TNA's second year.

Previously, Katmandu Coffee's efforts at managing two college retail outlets had underperformed due to limited management resources. Recognising this gap, TNA worked with the company to identify potential partners to revitalise the retail segment. In 2023, after nearly a year of scouting, TNA facilitated a partnership with an industry professional who joined the team through a strategic equity stake and assumed management responsibilities. This partnership led to the launch of a retail outlet business, Caffeophilia, in 2024, under the Katmandu Coffee brand. Caffeophilia was created with a vision of franchising and future expansion, supported by growth funding. The retail operation was structured under a new entity, with the majority investment coming from Katmandu Coffee's parent company.

The company's retail business is now structured into four distinct segments: Katmandu Coffee with one outlet in Lazimpat; Caffeophilia with two self-owned outlets at Bhaisepati and Mangalbazar; Kafemandu with one franchise at Swayambhu; and Piccolo with two self-owned outlets, at Lainchaur (Ncell Tower) and Manakamana, Kurintar, and two franchises, at Chhaya Center and Mandikhatar.



In a pioneering move, the founders of Katmandu Coffee initiated discussions with the Danish patent holder of 'Ice-Espresso.' This collaboration resulted in an invitation for the patent holder to visit Nepal for a technology transfer, enabling the company to commence production and sales. As part of their agreement with the Danish partner, Katmandu Coffee secured exclusive distribution rights for Asia, the GCC and Australia. The company subsequently participated in trade fairs in China, India, Saudi Arabia, UAE and South Korea, successfully securing initial orders for Ice-Espresso from these markets. The product was introduced in leading modern trade stores, where tastings and sampling exercises were conducted to establish proof of concept, which later expanded into proof of scalability. This way, Katmandu Coffee took a strategic move through its outlet and iced espresso to move from a crowded and working-capital-heavy business-to-business (B2B) segment to a brand experiential business-to-customer (B2C) segment.

TNA led Katmandu Coffee's fundraising efforts, serving as an investment banker to communicate the company's vision to potential PEVC and HNI investors in the country. These efforts by TNA not only secured new funding for growth but also identified an exit opportunity, marking a successful chapter for both TNA and the company. TNA exited Katmandu Coffee in 2024, through a strategic buyout model, with Alpha Plus Ventures Limited acquiring the shares. This transaction generated approximately a two-fold return and the formal exit process for TNA was completed in about two months.

Further Investments

With a recent investment of $435,000 from Alpha Plus Venture Capital, Katmandu Coffee is poised to expand its innovative liquid iced espresso in sachet form. This pivot comes following the limited success of bottled iced espresso in the local market and challenges in exporting bottled products internationally. Sachets have gained global popularity, particularly in Asian and Australian market segments, and present a more viable opportunity. Alongside this, the company is finalising packaging for the product and plans an international market launch in the first phase, followed by local market testing.

To support this expansion, the investor intends to allocate a portion of the investment towards operational upgrades, including relocating the plant to a larger, company-owned facility, installing new roasters to boost capacity four-fold, and shifting focus to exporting iced espresso in six flavours. The investment will also fuel the expansion of its café brands Caffeophilia, Kafemandu and Piccolo, with plans to establish over 12 outlets, while eight outlets have already been established and are operating successfully.

In 2022, True North Associates had laid the groundwork for strengthening Katmandu Coffee's governance and operational systems during a critical cash crunch caused by poor management of receivables and heavy working capital needs. Building on this foundation, Alpha Plus Ventures has taken a proactive, hands-on approach to further strengthen the company's governance. They have deployed two of their staff to Katmandu Coffee, focusing on improving cash flow management, ensuring timely staff payments, and establishing robust systems and policies, including a recovery unit to address unaccounted or unrecovered funds. These efforts go beyond providing financial investment, adding substantial value to the company's overall operational framework. Katmandu Coffee as a group (including both coffee sales business and trading business) currently generates an annual turnover of NPR 24 Crore ($1.7m).

Alpha Plus Ventures envisions growing Katmandu Coffee into an NPR 100 Crore ($7.4m) enterprise by the time of exit, through market and product diversification. They remain open to injecting additional investments to achieve this ambitious growth trajectory.

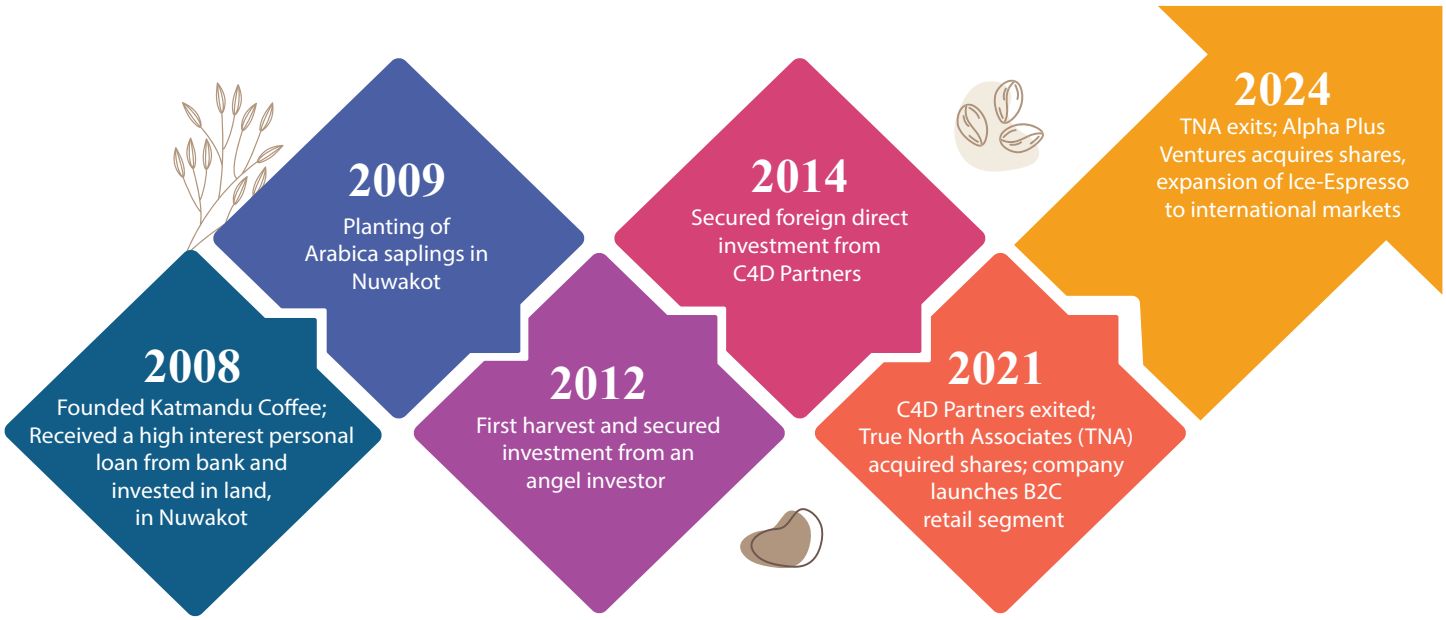


Impact and Way Forward

Katmandu Coffee currently holds a significant market share (greater than 10%) in coffee sales, making substantial contributions to both the B2B and B2C markets. The company directly employs over 65 people, including those working with farmers and at their outlets, and indirectly provides for over 100 additional jobs through its trading and training operations. The trading business continues to handle equipment for coffee processing, roasting and cafe machinery. Additionally, in partnership with the Barista's Coffee School (BCS), Katmandu Coffee has been providing barista training to interested individuals since 2014.

Looking ahead, Katmandu Coffee envisions expanding its horizons by securing additional investment to build a permanent production facility. This new investment will not only enable the acquisition of cutting-edge machinery for their expanded outlets but also fuel their ambitions to scale production and explore export opportunities in several countries. Katmandu Coffee also plans to begin crafting "microlots", which are high-cost, premium coffee beans that offer a promising pathway for export and enable the company to reach new markets and grow beyond their current boundaries.

Timeline of Key Milestones



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